



# WEEKLY ECONOMIC DIGEST

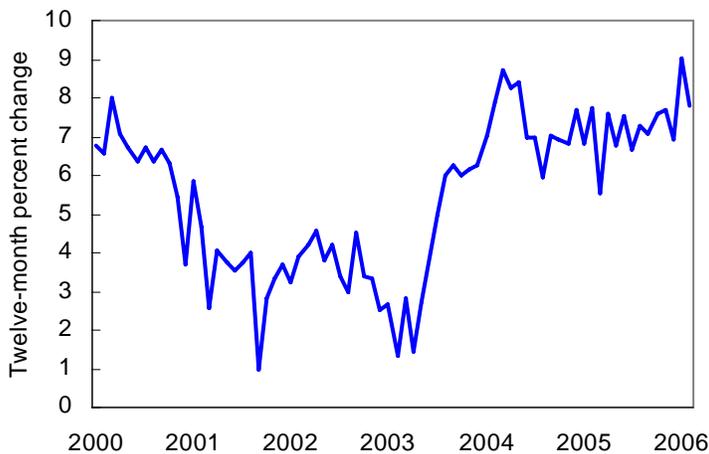


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

March 21, 2006

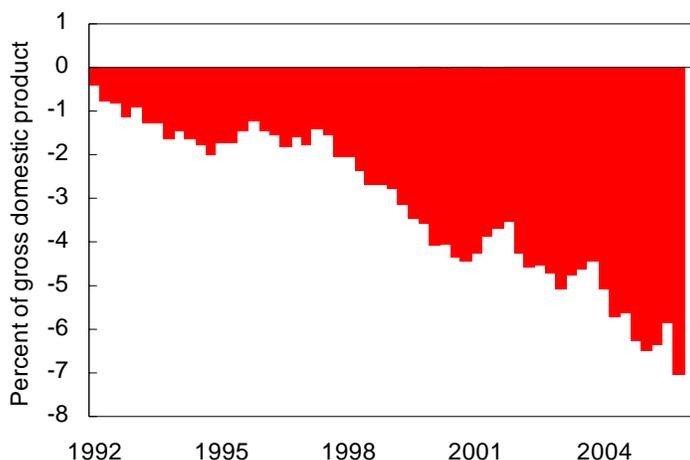
## Sales, Production, and Inflation Cooled in February

Retail and Food Service Sales  
Excluding Sales at Motor Vehicle and Parts Dealers  
and Gasoline Stations



Source: Census Bureau, U.S. Department of Commerce.

U.S. Current Account Balance



Source: Census Bureau and Bureau of Economic Analysis,  
U.S. Department of Commerce.

- Retail sales dropped in February.** Sales at retail establishments and food services fell 1.3 percent in February after advancing 2.9 percent in January. Sales at motor vehicle and parts dealerships tumbled by 4.6 percent last month and sales at gas stations dropped 1.6 percent. All other sales fell by 0.3 percent, but remained a relatively strong 7.8 percent above last year's level (see top chart).
- Energy output boosted industrial production last month.** Industrial production rose by 0.7 percent in February, due to a 7.9 percent rebound in production at utilities following an unusually warm January. Factory output was unchanged last month and mining production dropped by 0.5 percent. Industrial production was 3.3 percent above its level a year earlier.
- Consumer price inflation slowed in February.** Both the overall consumer price index (CPI) and the core CPI, which excludes the volatile food and energy components, rose by 0.1 percent last month. Energy prices fell by 1.2 percent in February but remained 20.1 percent higher than they were a year earlier. The overall CPI rose 3.6 percent in the 12 months ending in February and the core CPI rose 2.1 percent. The average hourly earnings of production or nonsupervisory workers on nonfarm payrolls were 0.1 percent lower than a year earlier, after accounting for inflation.
- The current account deficit widened again in 2005.** The U.S. current account balance, which combines the balance on trade in goods and services with the balance on international income flows, surged to a record deficit of \$805 billion—6.4 percent of gross domestic product (GDP)—in 2005. The trade balance rose and the balance on income flows dropped sharply to its smallest surplus on record. In the fourth quarter, when the current account deficit was equal to 7.0 percent of GDP (see bottom chart), the quarterly balance on income flows was a deficit of \$2.4 billion.

The Economy at a Glance	Feb	Jan	Dec	Nov	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)	—	—	—	—	1.6	4.1	3.3	3.8	3.5	4.2
Industrial Production (% growth)	8.7	-3.5	12.7	11.4	5.3	1.4	1.6	3.8	3.3	4.1
Capacity Utilization (level, %)	81.2	80.8	81.2	80.5	80.5	79.8	79.9	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.8	4.7	4.9	5.0	5.0	5.0	5.1	5.2	5.1	5.5
Housing Starts (thousands)	2120	2303	1989	2136	2059	2101	2044	2083	2072	1950
Real Disposable Personal Income (% growth)	n.a.	0.7	6.4	9.0	7.1	-2.0	0.2	-3.4	1.5	3.4
Retail Sales (% growth)	-14.9	41.5	3.6	11.2	1.9	6.9	11.1	4.9	7.5	7.3
Personal Saving Rate (level, %)	n.a.	-0.7	-0.4	-0.2	-0.2	-1.6	-0.2	0.5	-0.4	1.8
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	1.2	8.7	-1.2	-8.1	3.2	5.5	3.7	2.5	3.4	2.7
Core CPI-U Inflation (% growth)	1.2	2.4	1.2	2.4	2.4	1.6	2.0	2.5	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	3.2	3.2	2.8	2.8	3.2	3.9
Output per Hour (% growth)	—	—	—	—	-0.5	4.2	2.4	3.8	2.9	3.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	4.43	4.24	3.89	3.88	3.83	3.36	2.86	2.54	3.15	1.37
T-note Rate, 10-years (level, %)	4.57	4.42	4.47	4.54	4.49	4.21	4.16	4.30	4.29	4.27
Federal Funds Rate (level, %)	4.49	4.29	4.16	4.00	3.98	3.46	2.94	2.47	3.22	1.35
Dow Jones Industrial Avg (index level)	10971	10872	10828	10695	10616	10544	10382	10648	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

### Upcoming Economic Releases:

- **Producer Price Indexes: February 2006** [Release: Tuesday, March 21]
- **Existing Home Sales: February 2006** [Release: Thursday, March 23]
- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders: February 2006** [Release: Friday, March 24]
- **New Residential Sales: February 2006** [Release: Friday, March 24]
- **Federal Open Market Committee Monetary Policy Statement** [Tuesday, March 28]